

FORT MADISON COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

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Fort Madison Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b> <b>(Before September 2006 election)</b>		
Dan Davis	President	2008
Judy Gerdes	Vice President	2008
Duane Sherwood	Board Member	2007
Greg Wheeler	Board Member	2007
Denise Gray	Board Member	2006
Steve Martin	Board Member (Resigned)	2006
Donald Ward	Board Member (Appointed)	2006
Peggy Booten	Board Member	2006
<b>Board of Education</b> <b>(After September 2006 election)</b>		
Dan Davis	President	2008
Peggy Booten	Vice President	2009
Duane Sherwood	Board Member	2007
Greg Wheeler	Board Member	2007
Judy Gerdes	Board Member	2008
Donald Ward	Board Member	2009
Denise Gray	Board Member	2009
<b>School Officials</b>		
Dr. Kenneth Marang	Superintendent	2007
Craig Cornick	Director of Student Services	2007
Sandra K. Elmore	District Secretary/Treasurer and Business Manager	2007
Gruhn Law Firm	Attorney	2007

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3060

Telephone (641) 792-1910

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of the  
Fort Madison Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fort Madison Community School District, Fort Madison, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Fort Madison Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2008 on our consideration of Fort Madison Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Fort Madison Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 14, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Fort Madison Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- The District's total combined net assets were \$18,000,017 as of June 30, 2007 compared to \$16,515,458 as of June 30, 2006, an increase of 9.0%.
- General Fund revenues increased from \$18,108,126 in fiscal 2006 to \$19,405,409 in fiscal 2007, while General Fund expenditures increased from \$19,121,363 in fiscal 2006 to \$19,657,447 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$2,127,268 in fiscal 2006 to \$1,875,230 in fiscal 2007.
- The increase in General Fund expenditures was due primarily to an increase in the expenditures in the instruction function.
- The October 2006 Certified Enrollment count resulted in a decrease of 52.4 students, representing a decrease of 2.1% compared to the prior year.
- The District ended the year with no long term debt outstanding except for early retirement and compensated absences.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Fort Madison Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Fort Madison Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Fort Madison Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

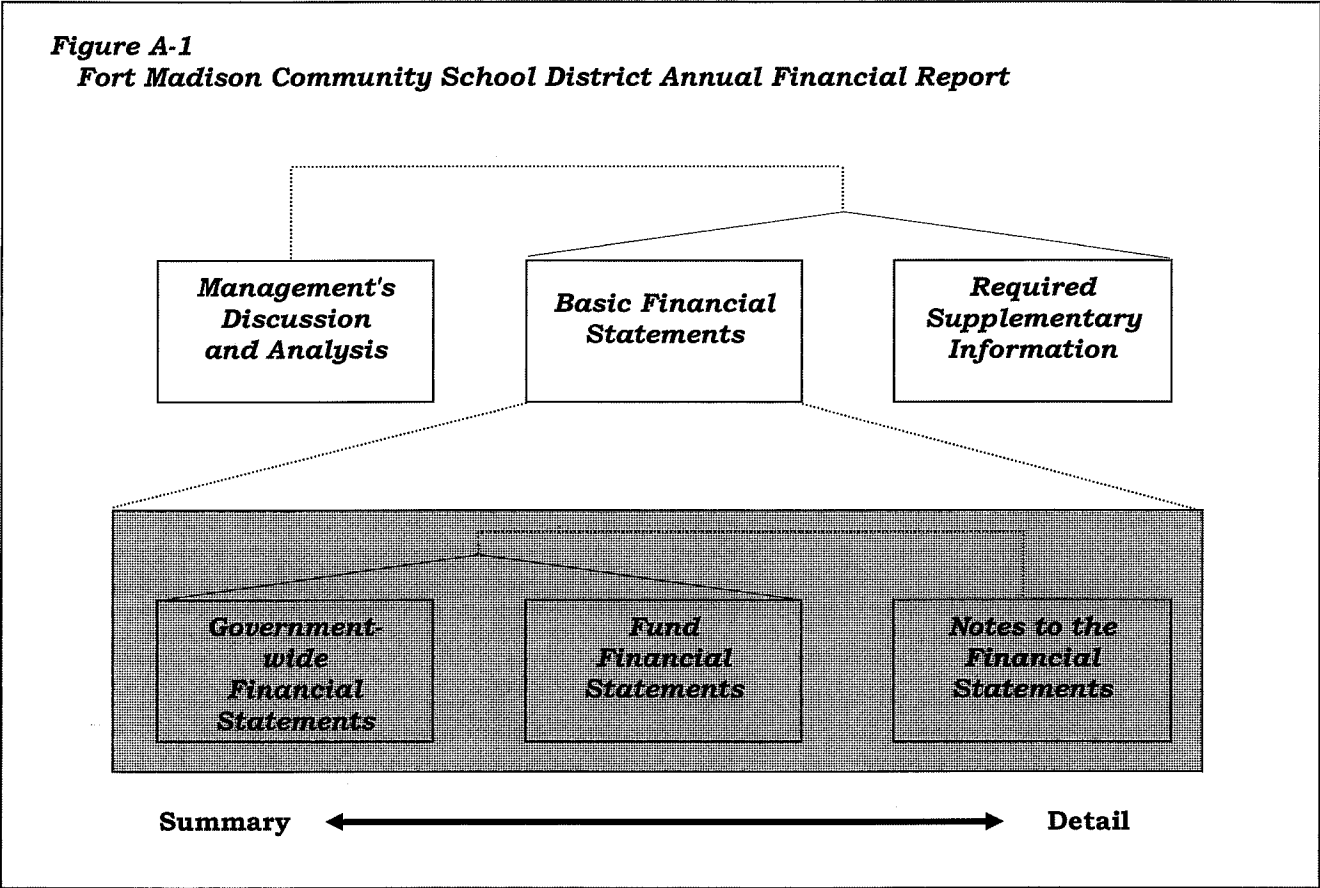


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.



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In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 19,825,047	16,214,545	323,839	374,148	20,148,886	16,588,693	21.46%
Capital assets	9,292,273	9,270,440	91,004	59,048	9,383,277	9,329,488	0.58%
Total assets	29,117,320	25,484,985	414,843	433,196	29,532,163	25,918,181	13.94%
Long-term obligations	573,488	486,413	0	0	573,488	486,413	17.90%
Other liabilities	10,885,815	8,852,858	72,843	63,452	10,958,658	8,916,310	22.91%
Total liabilities	11,459,303	9,339,271	72,843	63,452	11,532,146	9,402,723	22.65%
Net assets:							
Invested in capital assets, net of related debt	9,292,273	9,270,440	91,004	59,048	9,383,277	9,329,488	0.58%
Restricted	6,801,668	5,049,045	0	0	6,801,668	5,049,045	34.71%
Unrestricted	1,564,076	1,826,229	250,996	310,696	1,815,072	2,136,925	-15.06%
Total net assets	\$ 17,658,017	16,145,714	342,000	369,744	18,000,017	16,515,458	8.99%

The District's combined net assets increased by 8.99%, or \$1,484,559, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$1,752,623, or 34.71% over the prior year. The increase was primarily a result of the increase in the Capital Projects Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$321,853, or 15.06%. This decrease in unrestricted net assets was a result of the District increased expenditures in the General Fund.

Figure A-4 shows the changes in net assets for the years ended June 30, 2007 and 2006.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 797,151	671,355	354,300	363,159	1,151,451	1,034,514	11.30%
Operating grants and contributions and restricted interest	2,961,393	2,703,511	523,484	485,674	3,484,877	3,189,185	9.27%
Capital grants and contributions and restricted interest	108,325	89,404	0	0	108,325	89,404	21.16%
General revenues:							
Local tax	6,398,660	5,814,423	0	0	6,398,660	5,814,423	10.05%
Local option sales and service tax	1,812,347	1,466,898	0	0	1,812,347	1,466,898	23.55%
Unrestricted state grants	10,223,085	9,740,997	0	0	10,223,085	9,740,997	4.95%
Other	433,934	326,911	14,019	12,720	447,953	339,631	31.89%
Total revenues	22,734,895	20,813,499	891,803	861,553	23,626,698	21,675,052	9.00%
Program expenses:							
Governmental activities:							
Instructional	14,442,826	13,967,287	0	0	14,442,826	13,967,287	3.40%
Support services	5,522,478	5,379,502	0	0	5,522,478	5,379,502	2.66%
Non-instructional programs	0	0	919,547	869,823	919,547	869,823	5.72%
Other expenses	1,257,288	1,216,436	0	0	1,257,288	1,216,436	3.36%
Total expenses	21,222,592	20,563,225	919,547	869,823	22,142,139	21,433,048	3.31%
Changes in net assets	1,512,303	250,274	(27,744)	(8,270)	1,484,559	242,004	513.44%
Beginning net assets	16,145,714	15,895,440	369,744	378,014	16,515,458	16,273,454	1.49%
Ending net assets	\$ 17,658,017	16,145,714	342,000	369,744	18,000,017	16,515,458	8.99%

In fiscal 2007, property tax and unrestricted state grants account for 73.1% of the revenue from governmental activities while charges for services and operating grants and contributions account for 98.4% of the revenue from business type activities.

The District's total revenues were approximately \$23.6 million of which \$22.7 million was for governmental activities and \$.9 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 9.00% in revenues and a 3.31% increase in expenses. The increase in expenses was related to the increase in instructional and non-instructional costs during the year.

### Governmental Activities

Revenues for governmental activities were \$22,734,895 and expenses were \$21,222,592.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 14,442,826	13,967,287	3.29%	11,645,083	11,484,664	1.38%
Support services	5,522,478	5,379,502	2.59%	5,370,961	5,242,386	2.39%
Other expenses	1,257,288	1,216,436	3.25%	339,679	371,905	-9.49%
Totals	<u>\$ 21,222,592</u>	<u>20,563,225</u>	<u>3.11%</u>	<u>17,355,723</u>	<u>17,098,955</u>	<u>1.48%</u>

- The cost financed by users of the District's programs was \$797,151.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,069,718.
- The net cost of governmental activities was financed with \$6,398,660 in property tax, \$1,812,347 in local option sales and service tax, \$10,223,085 in unrestricted state grants and \$407,286 in interest income.

### Business-Type Activities

Revenues of the District's business-type activities were \$891,803 and expenses were \$919,547. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Fort Madison Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$8,939,232, above last year's ending fund balances of \$7,361,687. However, the primary reason for the increase in combined fund balances in fiscal 2007 is due to the increase in the Capital Projects fund balance.

### Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. An increase during the year in tax and state grants resulted in an increase in revenues. The increase in revenues was offset by the District's increase in General Fund expenditures reducing the District's fund balance.
- The General Fund balance decreased from \$2,127,268 to \$1,875,230, due in part to increased expenditures during the year.
- The Capital Projects fund balance increased from \$4,882,361 to \$6,567,361, due in part to the increase in revenues during the year.

### Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$369,744 at June 30, 2006 to \$342,000 at June 30, 2007, representing a decrease of 7.5%.

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## BUDGETARY HIGHLIGHTS

The District's revenues were \$1,140,500 more than budgeted revenues, a variance of 5.07%. The most significant variance resulted from the District receiving more in local and federal sources than originally anticipated.

The District manages or controls General Fund spending through its line-item budget. The certified budget exceeded in the support services and non-instructional functions due to the timing of expenditures paid at year-end without sufficient time to amend the certified budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$9.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of less than 1% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$627,326.

The original cost of the District's capital assets was \$17,034,138. Governmental funds account for \$16,849,597 with the remainder of \$184,541 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$22,094 at June 30, 2007 compared to \$170,020 at June 30, 2006. This decrease was the result of construction projects being completed during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 173,854	173,854	0	0	173,854	173,854	0.0%
Construction in progress	22,094	170,020	0	0	22,094	170,020	-87.0%
Buildings	8,255,251	8,056,919	0	0	8,255,251	8,056,919	2.5%
Improvements other than buildings	177,700	190,092	0	0	177,700	190,092	-6.5%
Machinery and equipment	663,374	679,555	91,004	59,048	754,378	738,603	2.1%
Total	<u>\$ 9,292,273</u>	<u>9,270,440</u>	<u>91,004</u>	<u>59,048</u>	<u>9,383,277</u>	<u>9,329,488</u>	<u>0.6%</u>

### Long-Term Debt

At June 30, 2007, the District had \$573,488 in other long-term debt outstanding. This represents an increase of 17.9% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Total District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
Early retirement	\$ 467,108	425,685	9.7%
Compensated absences	106,380	60,728	75.2%
Totals	<u>\$ 573,488</u>	<u>486,413</u>	<u>17.9%</u>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The state's economy is showing limited signs of economic recovery. The weak economy has adversely impacted the State of Iowa's budget and has translated into reduced levels of state aid funding for education.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The October 2007 certified enrollment resulted in an increase of 12.4 students.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra K. Elmore, District Secretary/Treasurer, Fort Madison Community School District, P.O. Box 1423, Fort Madison, Iowa, 52627.

## BASIC FINANCIAL STATEMENTS

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments:			
ISCAP(Note 3)	\$ 1,996,840	0	1,996,840
Other	10,318,921	297,436	10,616,357
Receivables:			
Property tax:			
Delinquent	94,732	0	94,732
Succeeding year	6,562,508	0	6,562,508
Accounts	14,841	11,121	25,962
Accrued ISCAP interest (Note 3)	597	0	597
Due from other governments	836,608	0	836,608
Inventories	0	15,282	15,282
Capital assets, net of accumulated depreciation (Note 4)	9,292,273	91,004	9,383,277
<b>Total Assets</b>	<b>29,117,320</b>	<b>414,843</b>	<b>29,532,163</b>
<b>Liabilities</b>			
Accounts payable	410,322	26,461	436,783
Salaries and benefits payable	1,857,584	46,382	1,903,966
ISCAP warrants payable (Note 3)	2,000,000	0	2,000,000
ISCAP accrued interest payable (Note 3)	492	0	492
ISCAP unamortized premium	14,840	0	14,840
Deferred revenue:			
Succeeding year property tax	6,562,508	0	6,562,508
Other	40,069	0	40,069
Long-term liabilities (Note 5):			
Portion due within one year:			
Early retirement payable	292,849	0	292,849
Compensated absences payable	106,380	0	106,380
Portion due after one year:			
Early retirement payable	174,259	0	174,259
<b>Total Liabilities</b>	<b>11,459,303</b>	<b>72,843</b>	<b>11,532,146</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	9,292,273	91,004	9,383,277
Restricted for:			
Talented and gifted	37,354	0	37,354
Beginning teacher mentoring	7,775	0	7,775
Additional teacher contract day	2,689	0	2,689
Professional development	32,054	0	32,054
Market factor	16,546	0	16,546
Nonpublic textbook	219	0	219
Capital projects	6,567,361	0	6,567,361
Physical plant and equipment levy	41,440	0	41,440
Other special revenue purposes	96,230	0	96,230
Unrestricted	1,564,076	250,996	1,815,072
<b>Total Net Assets</b>	<b>\$ 17,658,017</b>	<b>342,000</b>	<b>18,000,017</b>

SEE NOTES TO FINANCIAL STATEMENTS.



FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 11,496,805	83,926	1,852,754	0	(9,560,125)	0	(9,560,125)
Special instruction	2,256,872	118,532	147,838	0	(1,990,502)	0	(1,990,502)
Other instruction	689,149	594,693	0	0	(94,456)	0	(94,456)
	<u>14,442,826</u>	<u>797,151</u>	<u>2,000,592</u>	<u>0</u>	<u>(11,645,083)</u>	<u>0</u>	<u>(11,645,083)</u>
Support services:							
Student services	444,010	0	0	0	(444,010)	0	(444,010)
Instructional staff services	695,514	0	0	0	(695,514)	0	(695,514)
Administration services	1,833,054	0	0	0	(1,833,054)	0	(1,833,054)
Operation and maintenance of plant services	1,729,636	0	0	0	(1,729,636)	0	(1,729,636)
Transportation services	820,264	0	151,517	0	(668,747)	0	(668,747)
	<u>5,522,478</u>	<u>0</u>	<u>151,517</u>	<u>0</u>	<u>(5,370,961)</u>	<u>0</u>	<u>(5,370,961)</u>
Other expenditures:							
Facilities acquisitions	12,987	0	0	108,325	95,338	0	95,338
AEA flowthrough	809,284	0	809,284	0	0	0	0
Depreciation(unallocated)*	435,017	0	0	0	(435,017)	0	(435,017)
	<u>1,257,288</u>	<u>0</u>	<u>809,284</u>	<u>108,325</u>	<u>(339,679)</u>	<u>0</u>	<u>(339,679)</u>
Total governmental activities	21,222,592	797,151	2,961,393	108,325	(17,355,723)	0	(17,355,723)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	919,547	354,300	523,484	0	0	(41,763)	(41,763)
Total business-type activities	<u>919,547</u>	<u>354,300</u>	<u>523,484</u>	<u>0</u>	<u>0</u>	<u>(41,763)</u>	<u>(41,763)</u>
Total	<u>\$ 22,142,139</u>	<u>1,151,451</u>	<u>3,484,877</u>	<u>108,325</u>	<u>(17,355,723)</u>	<u>(41,763)</u>	<u>(17,397,486)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 6,251,344	0	6,251,344
Capital outlay					147,316	0	147,316
Local option sales and services tax					1,812,347	0	1,812,347
Unrestricted state grants					10,223,085	0	10,223,085
Unrestricted investment earnings					407,286	14,019	421,305
Other					26,648	0	26,648
Total general revenues					<u>18,868,026</u>	<u>14,019</u>	<u>18,882,045</u>
Changes in net assets					1,512,303	(27,744)	1,484,559
Net assets beginning of year					16,145,714	369,744	16,515,458
Net assets end of year					<u>\$ 17,658,017</u>	<u>342,000</u>	<u>18,000,017</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Capital Projects	Nonmajor Other Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments:				
ISCAP (Note 3)	\$ 1,996,840	0	0	1,996,840
Other	3,472,706	6,349,543	496,672	10,318,921
Receivables:				
Property tax:				
Delinquent	83,537	0	11,195	94,732
Succeeding year	5,802,649	0	759,859	6,562,508
Accounts	14,841	0	0	14,841
Accrued ISCAP interest (Note 3)	597	0	0	597
Due from other governments	605,651	230,957	0	836,608
<b>Total Assets</b>	<b>\$ 11,976,821</b>	<b>6,580,500</b>	<b>1,267,726</b>	<b>19,825,047</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 385,957	13,139	11,226	410,322
Salaries and benefits payable	1,857,584	0	0	1,857,584
ISCAP warrants payable (Note 3)	2,000,000	0	0	2,000,000
ISCAP accrued interest payable (Note 3)	492	0	0	492
ISCAP unamortized premium	14,840	0	0	14,840
Deferred revenue:				
Succeeding year property tax	5,802,649	0	759,859	6,562,508
Other	40,069	0	0	40,069
Total liabilities	10,101,591	13,139	771,085	10,885,815
Fund balances:				
Reserved for:				
Talented and gifted	37,354	0	0	37,354
Beginning teacher mentoring	7,775	0	0	7,775
Additional teacher contract day	2,689	0	0	2,689
Professional development	32,054	0	0	32,054
Market factor	16,546	0	0	16,546
Nonpublic textbook	219	0	0	219
Unreserved	1,778,593	6,567,361	496,641	8,842,595
Total fund balances	1,875,230	6,567,361	496,641	8,939,232
<b>Total Liabilities and Fund Balances</b>	<b>\$ 11,976,821</b>	<b>6,580,500</b>	<b>1,267,726</b>	<b>19,825,047</b>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2007

Total fund balances of governmental funds (page 15) \$ 8,939,232

*Amounts reported for governmental activities in the  
statement of net assets are different because:*

Capital assets used in governmental activities are not  
financial resources and, therefore, are not reported as  
assets in in the governmental funds. 9,292,273

Long-term liabilities, including compensated absences and  
early retirement payable, are not due and payable in the  
current period and, therefore, are not reported as  
liabilities in the governmental funds. (573,488)

Net assets of governmental activites (page 13) \$ 17,658,017

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 5,640,802	1,812,347	757,858	8,211,007
Tuition	202,458	0	0	202,458
Other	378,560	276,404	373,663	1,028,627
State sources	12,101,213	0	889	12,102,102
Federal sources	1,082,376	0	108,325	1,190,701
Total revenues	19,405,409	2,088,751	1,240,735	22,734,895
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	11,114,418	0	409,216	11,523,634
Special instruction	2,259,659	0	0	2,259,659
Other instruction	356,847	0	329,308	686,155
	13,730,924	0	738,524	14,469,448
Support services:				
Student services	417,238	0	0	417,238
Instructional staff services	652,694	0	0	652,694
Administration services	1,765,661	0	10,583	1,776,244
Operation and maintenance of plant services	1,619,552	0	97,316	1,716,868
Transportation services	662,094	0	167,462	829,556
	5,117,239	0	275,361	5,392,600
Other expenditures:				
Facilities acquisitions	0	403,751	82,267	486,018
AEA flowthrough	809,284	0	0	809,284
	809,284	403,751	82,267	1,295,302
Total expenditures	19,657,447	403,751	1,096,152	21,157,350
Excess(deficiency) of revenues over(under) expenditures	(252,038)	1,685,000	144,583	1,577,545
Fund balance beginning of year	2,127,268	4,882,361	352,058	7,361,687
Fund balance end of year	\$ 1,875,230	6,567,361	496,641	8,939,232

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 1,577,545

***Amounts reported for governmental activities in the  
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 634,586	
Depreciation expense	(615,801)	
Loss on disposal of assets	<u>3,048</u>	21,833

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ (41,423)	
Compensated Absences	<u>(45,652)</u>	<u>(87,075)</u>

Changes in net assets of governmental activities (page 14) \$ 1,512,303

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
<b>Assets</b>	
Cash and pooled investments	\$ 297,436
Accounts receivable	11,121
Inventories	15,282
Capital assets, net of accumulated depreciation (Note 3)	<u>91,004</u>
<b>Total Assets</b>	<u>414,843</u>
<b>Liabilities</b>	
Accounts payable	26,461
Salaries and benefits payable	<u>46,382</u>
<b>Total Liabilities</b>	<u>72,843</u>
<b>Net Assets</b>	
Invested in capital assets	91,004
Unrestricted	<u>250,996</u>
<b>Total Net Assets</b>	<u><u>\$ 342,000</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 354,300
TOTAL OPERATING REVENUES	<u>354,300</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	300,542
Benefits	37,327
Services	34,389
Supplies	534,795
Depreciation	11,525
Other	735
TOTAL OPERATING EXPENSES	<u>919,313</u>
OPERATING LOSS	<u>(565,013)</u>
NON-OPERATING REVENUES:	
State sources	11,162
Federal sources	512,322
Interest income	14,019
TOTAL NON-OPERATING REVENUES	<u>537,503</u>
Change in net asset before loss on disposal of assets	(27,510)
Loss on disposal of assets	<u>(234)</u>
Net loss	(27,744)
Net assets beginning of year	<u>369,744</u>
Net assets end of year	<u>\$ 342,000</u>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 382,241
Cash received from miscellaneous operating activities	1,389
Cash payments to employees for services	(335,635)
Cash payments to suppliers for goods or services	(497,692)
Net cash used in operating activities	<u>(449,697)</u>
Cash flows from non-capital financing activities:	
State grants received	11,162
Federal grants received	451,371
Net cash provided by non-capital financing activities	<u>462,533</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(43,715)
Net cash used in capital and related financing activities	<u>(43,715)</u>
Cash flows from investing activities:	
Interest income	14,019
Net cash provided by investing activities	<u>14,019</u>
Net decrease in cash and cash equivalents	(16,860)
Cash and cash equivalents at beginning of year	<u>314,296</u>
Cash and cash equivalents at end of year	<u><u>\$ 297,436</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (565,013)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	60,951
Depreciation	11,525
Decrease in inventories	4,119
Decrease in accounts receivable	29,330
Increase in accounts payable	7,157
Increase in salaries and benefits payable	2,234
Net cash used in operating activities	<u><u>\$ (449,697)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 297,436</u></u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2007, the District received Federal commodities valued at \$60,951.

SEE NOTES TO FINANCIAL STATEMENTS.



FORT MADISON COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Fort Madison Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Fort Madison, Iowa, and the predominate agricultural territory in Lee, Des Moines and Henry Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Fort Madison Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Fort Madison Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lee, Des Moines and Henry Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the support services and non-instructional functions exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified portfolio	<u>\$ 9,687,942</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Services.

**(3) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A	6/28/2007	6/27/2008	\$ 1,996,840	597	2,000,000	492

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity was noted in the General Fund for the year ended June 30, 2007.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.455%

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 173,854	0	0	173,854
Construction in progress	170,020	367,464	515,390	22,094
Total capital assets not being depreciated	343,874	367,464	515,390	195,948
Capital assets being depreciated:				
Buildings	13,033,997	620,957	0	13,654,954
Improvements other than buildings	407,302	0	0	407,302
Machinery and equipment	2,500,648	167,651	76,906	2,591,393
Total capital assets being depreciated	15,941,947	788,608	76,906	16,653,649
Less accumulated depreciation for:				
Buildings	4,977,078	422,625	0	5,399,703
Improvements other than buildings	217,210	12,392	0	229,602
Machinery and equipment	1,821,093	180,784	73,858	1,928,019
Total accumulated depreciation	7,015,381	615,801	73,858	7,557,324
Total capital assets being depreciated, net	8,926,566	172,807	3,048	9,096,325
Governmental activities capital assets, net	\$ 9,270,440	540,271	518,438	9,292,273

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 145,269	43,715	4,443	184,541
Less accumulated depreciation	86,221	11,525	4,209	93,537
Business-type activities capital assets, net	\$ 59,048	32,190	234	91,004

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 14,262
Special	2,368
Other	2,994
Support services:	
Student	2,100
Instructional staff	18,052
Administration	11,460
Operation and maintenance of plant	8,035
Transportation	121,513
Unallocated depreciation	180,784
Total governmental activities depreciation expense	\$ 615,801
Business-type activities:	
Food services	\$ 11,525
Total business-type activities depreciation expense	\$ 11,525



**(5) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance			Balance	Due
	Beginning			End of	Within
	of Year	Additions	Deletions	Year	One Year
Early Retirement	\$ 425,685	313,135	271,712	467,108	292,849
Compensated Absences	60,728	106,380	60,728	106,380	106,380
Total	\$ 486,413	419,515	332,440	573,488	399,229

Early Retirement

The District offers a voluntary early retirement plan to its certified employees, classified employees and administrative staff. Eligible employees must have completed ten years of continuous service to the District in order to qualify for supplemental benefits. Employees desiring to elect early retirement under this program must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is based on their current employment classification. The supplemental benefit for administrators will be \$25,000 and licensed employees will be \$20,000. The supplemental benefit for classified employees will be 50% of the current contract at the time of retirement. Early retirement benefits paid during the year ended June 30, 2007, totaled \$271,712. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$712,372, \$682,479 and \$667,590 respectively, equal to the required contributions for each year.

**(7) Risk Management**

Fort Madison Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, and Iowa Code Chapter 28E organization. The Southeast Iowa School Employees Benefits Health Plan (SEISHP) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. SEISHP was for the purpose of

managing and funding employee benefits. SEISHP provides coverage and protection in the following categories: medical and dental.

Each member's contributions to SEISHP funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEISHP's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEISHP for the year ended June 30, 2007 were \$1,411,233.

Payments from participating members are used to buy health insurance from Wellmark and paying dental and vision claims. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Most members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. SEISHP will pay claims incurred before the termination date.

Fort Madison Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$809,284 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(9) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the support services and non-instructional functions exceeded the amounts budgeted.

**(10) Construction Commitment**

The District has entered into various contracts for construction projects. As of June 30, 2007, costs of \$22,094 have been incurred against these contracts. The balance remaining at June 30, 2007 will be paid as work on the projects progresses.

REQUIRED SUPPLEMENTARY INFORMATION

FORT MADISON COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 9,442,092	369,403	9,811,495	9,157,124	9,157,124	654,371
State sources	12,102,102	11,162	12,113,264	12,012,904	12,012,904	100,360
Federal sources	1,190,701	520,068	1,710,769	1,325,000	1,325,000	385,769
Total revenues	22,734,895	900,633	23,635,528	22,495,028	22,495,028	1,140,500
Expenditures:						
Instruction	14,469,448	0	14,469,448	14,572,331	14,572,331	102,883
Support services	5,392,600	0	5,392,600	5,153,014	5,153,014	(239,586)
Non-instructional programs	0	920,202	920,202	894,500	894,500	(25,702)
Other expenditures	1,295,302	0	1,295,302	1,853,384	1,853,384	558,082
Total expenditures	21,157,350	920,202	22,077,552	22,473,229	22,473,229	395,677
Excess(deficiency) of revenues over(under) expenditures	1,577,545	(19,569)	1,557,976	21,799	21,799	1,536,177
Balance beginning of year	7,361,687	369,744	7,731,431	5,947,922	5,947,922	1,783,509
Balance end of year	\$ 8,939,232	350,175	9,289,407	5,969,721	5,969,721	3,319,686

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the support services and non-instructional functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

FORT MADISON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2007

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
<b>Assets</b>				
Cash and pooled investments	\$ 350,957	106,428	39,287	496,672
Receivables:				
Property tax:				
Current year delinquent	9,042	0	2,153	11,195
Succeeding year	608,736	0	151,123	759,859
<b>Total Assets</b>	<b>\$ 968,735</b>	<b>106,428</b>	<b>192,563</b>	<b>1,267,726</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 1,028	10,198	0	11,226
Deferred revenue:				
Succeeding year property tax	608,736	0	151,123	759,859
Total liabilities	609,764	10,198	151,123	771,085
Fund balances:				
Unreserved	358,971	96,230	41,440	496,641
Total fund balances	358,971	96,230	41,440	496,641
<b>Total Liabilities and Fund Balances</b>	<b>\$ 968,735</b>	<b>106,428</b>	<b>192,563</b>	<b>1,267,726</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2007

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 610,542	0	147,316	757,858
Other	28,985	342,698	1,980	373,663
State sources	718	0	171	889
Federal sources	0	0	108,325	108,325
TOTAL REVENUES	640,245	342,698	257,792	1,240,735
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	409,216	0	0	409,216
Other instruction	0	329,308	0	329,308
Support services:				
Administration services	10,583	0	0	10,583
Operation and maintenance of plant services	97,316	0	0	97,316
Student transportation	33,944	0	133,518	167,462
Other expenditures:				
Facilities acquisitions	0	0	82,267	82,267
TOTAL EXPENDITURES	551,059	329,308	215,785	1,096,152
EXCESS OF REVENUES OVER EXPENDITURES	89,186	13,390	42,007	144,583
FUND BALANCE BEGINNING OF YEAR	269,785	82,840	(567)	352,058
FUND BALANCE END OF YEAR	\$ 358,971	96,230	41,440	496,641

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



FORT MADISON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Special Education Club	\$ 104	0	0	104
Child Health Fund	12,292	2,607	3,202	11,697
Activity Account	1,093	436	409	1,120
Undistributed Funds	5,472	6,155	2,093	9,534
Vocal Music	6,965	10,688	16,893	760
Instrumental Music	219	21,201	19,946	1,474
DMS Club	(431)	431	0	0
History Day Fund	383	0	0	383
Mixed 7th & 8 Grade Team	(213)	0	(213)	0
6th Grade Team	52	0	0	52
7th Grade Team	5	0	5	0
8th Grade Team	(208)	0	(208)	0
Industrial Tech	3,265	1,380	2,304	2,341
Family and Consumer	635	530	392	773
Student Activity	7,630	28,853	28,215	8,268
Employee Activity Account	493	772	918	347
Student Council	387	90	45	432
Library Club	1,826	488	324	1,990
Terrier Pride	10	0	0	10
Prarie fire	0	1,244	1,244	0
Vocal Music	4,010	0	2,732	1,278
Instrumental Music	893	1,181	927	1,147
Co-Curricular Act - H.S.	(7,752)	34,096	36,067	(9,723)
Gate Receipts	(357)	69,180	76,899	(8,076)
Soccer Coed	0	400	400	0
Soccer - Fund Raiser	1,140	0	234	906
Cross Country	0	871	871	0
Boys Basketball-Fund Raiser	523	668	486	705
Football	0	210	210	0
Football - Fund Raiser	(991)	6,375	4,821	563
Baseball - Fund Raiser	(597)	5,492	8,584	(3,689)
Boys Track	0	120	(130)	250
Boys tennis	0	0	(150)	150
Boys golf	0	234	234	0
Wrestling	0	617	617	0
Wrestling - Fund Raiser	2,818	11,697	4,407	10,108
Girls Basketball	0	250	250	0
Girls Basketball-Fund Raiser	828	1,707	1,522	1,013
Volleyball	0	345	345	0
Volleyball - Fund Raiser	3,234	1,520	1,713	3,041

FORT MADISON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Softball - Fund Raiser	3,899	6,340	7,303	2,936
Girls Track	0	930	680	250
GTR/BTR/CC Fund Raiser	0	6,020	5,853	167
Girls Tennis	0	100	(122)	222
Crimson & Black	1,157	579	591	1,145
Art Club	1,083	1,763	1,745	1,101
Student Activity Account	3,424	3,792	2,272	4,944
Foreign Language Club	995	0	206	789
FFA	8	0	0	8
Employee Activity Account	1,629	704	1,132	1,201
FCCLA	3,526	1,047	1,964	2,609
Business Pros of America	(288)	300	0	12
HS Student Government	122	142	172	92
Bus. Pros of Am. Jr Class	(280)	250	0	(30)
Key Club	6,227	3,345	4,065	5,507
Madisonian	1,346	9,880	4,512	6,714
Dist. Educ. Club	(127)	7,800	7,420	253
Machine Shop Vica	154	0	0	154
Auto Shop Vica	1,265	0	932	333
National Honor Society	846	392	0	1,238
Science Club	1,798	2,334	3,497	635
Student Concessions	1,200	38,470	39,477	193
Dance & Drill Team	3,417	570	3,781	206
Library Club	1,307	291	(1,643)	3,241
Class of 2007	3,099	2,631	5,789	(59)
Class of 2008	2,118	5,240	1,370	5,988
Class of 2009	(114)	1,727	(31)	1,644
Class of 2010	0	145	52	93
Cheerleaders - Varsity	(12,031)	16,376	3,504	841
Student Equity Committee	287	0	287	0
MDT Fundraising	160	0	82	78
Student Activity Account	2,228	5,667	5,834	2,061
Student Council Account	615	0	503	112
Special Education Club	3,442	2,605	3,995	2,052
Student Activity Account	1,843	6,556	3,351	5,048
Richardson PTO	108	0	439	(331)
Student Activity Account	4,649	6,864	3,688	7,825
Total	\$ 82,840	342,698	329,308	96,230

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
<b>Revenues:</b>					
Local sources:					
Local tax	\$	8,211,007	7,281,321	7,190,181	7,232,611
Tuition		202,458	161,163	174,045	105,802
Other		1,028,627	923,719	791,009	714,690
State sources		12,102,102	11,358,669	10,962,706	10,699,317
Federal sources		1,190,701	1,088,627	2,689,181	991,438
Total	\$	22,734,895	20,813,499	21,807,122	19,743,858
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular instruction	\$	11,523,634	8,364,811	8,448,219	7,486,971
Special instruction		2,259,659	3,161,927	3,278,363	4,088,149
Other instruction		686,155	2,311,775	2,557,970	1,358,302
Support services:					
Student services		417,238	429,221	305,392	756,033
Instructional staff services		652,694	925,657	627,902	256,149
Administration services		1,776,244	1,548,184	1,322,744	1,196,868
Operation and maintenance of plant services		1,716,868	1,666,626	1,460,757	1,577,535
Transportation services		829,556	725,492	919,733	627,260
Non-instructional programs		0	0	0	5,578
Other expenditures:					
Facilities acquisitions		486,018	372,502	1,502,725	2,847,114
Long-term debt:					
Principal		0	0	0	20,000
Interest		0	0	0	5,205
AEA flow-through		809,284	755,127	744,835	757,872
Total	\$	21,157,350	20,261,322	21,168,640	20,983,036

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	FY 06	\$ 8,671
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	FY 07	251,401
			<u>260,072</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 07	<u>60,951</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	76,598
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	360,732
SUMMER FOOD SERVICE PROGRAM	10.559	FY 07	14,041
			<u>451,371</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	2322-G	381,413
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	2322-GC	59,160
			<u>440,573</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS			
	84.298	FY 05	4,227
STATE GRANTS FOR INNOVATIVE PROGRAMS			
	84.298	FY 06	8,616
STATE GRANTS FOR INNOVATIVE PROGRAMS			
	84.298	FY 07	3,125
			<u>15,968</u>
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 07	<u>11,760</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)			
	84.369	FY 05	11,892
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)			
	84.369	FY 06	2,128
			<u>14,020</u>

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED) :			
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332	FY 05	<u>2,531</u>
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 05	8,325
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 06	<u>100,000</u>
			<u>108,325</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 06	24,374
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 07	<u>74,713</u>
			<u>99,087</u>
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)	84.318	FY 05	<u>2,000</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 07	<u>37,350</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	<u>147,838</u>
TOTAL			<u>\$ 1,651,846</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Fort Madison Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Fort Madison Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fort Madison Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 14, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fort Madison Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Fort Madison Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fort Madison Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Fort Madison Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Fort Madison Community School District's financial statements that is more than inconsequential will not be prevented or detected by Fort Madison Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Fort Madison Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fort Madison Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Fort Madison Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Fort Madison Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Fort Madison Community School District and other parties to whom Fort Madison Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Fort Madison Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 14, 2008

**NOLTE, CORNMAN & JOHNSON P.C.**  
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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Fort Madison Community School District

Compliance

We have audited the compliance of Fort Madison Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Fort Madison Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Fort Madison Community School District's management. Our responsibility is to express an opinion on Fort Madison Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fort Madison Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Fort Madison Community School District's compliance with those requirements.

In our opinion, Fort Madison Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Fort Madison Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Fort Madison Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Fort Madison Community School District's internal control over compliance.

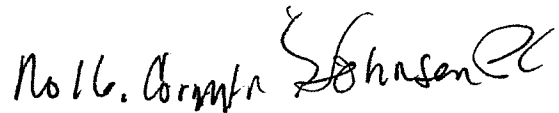


A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Fort Madison Community School District and other parties to whom Fort Madison Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson, P.C.", with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

March 14, 2008

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Clustered
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
    - CFDA Number 10.559 - Summer Food Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Fort Madison Community School District qualified as a low-risk auditee.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- II-A-07 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - The District does periodically try to contact the recipients of outstanding checks to determine the status of these checks. We do void and re-issue checks when the recipient verifies that the check is lost and needs to be replaced.

Conclusion - Response accepted.

- II-B-07 Supporting Documents for Payments to Officials - Payments made to officials from the Student Activity fund do not have supporting documentation.

Recommendation - The copy of the contract made for each official should be used as the support for payment.

Response - The District uses a vouching system that clearly identifies the individual for whom payment is requested, the amount to be paid to the official and also requires the official to sign the voucher acknowledging acceptance of the payment amount. The voucher is then forwarded to the activities office for approval prior to submission for payment.

Conclusion - Response acknowledged. The source documents should be preserved by the Board Secretary per Chapter 291.6 of the Code of Iowa.

- II-C-07 Student Activity Fund - During our audit concerns arose about the propriety of certain receipts, expenditures and accounts within the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8).

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or

organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

More specific findings are as follows:

- There were Target and Box Top for Education donations receipted into the Student Activity Fund. The Target and Box Top for Education donation should be receipted into the General Fund.
- We noted that there was an interest account. The interest earned each year should be allocated out on an annual basis to the individual activity accounts.
- Employee Activity Account is not a student run organization. The balance in the employee activity account should be transferred to the General Fund.

Response - The District acknowledges that some funds are deposited into the Student Activity accounts due to the ease these account provide for accurate tracking and reporting purposes. The amount of funds in these accounts is monitored and kept to a minimum. These funds are expended in the same year as they are received and provided opportunities for students to participate in extra curricular activities that could be provided out of the General Fund had it been recorded in that fund.

Conclusion - Response acknowledged. The District should review Chapter 9 of the Code of the LEA accounting manual to determine the appropriate account for revenues to be deposited.

II-D-07 Nutrition Procedures - We noted during the audit the following within the School Nutrition Fund:

- The commodity food listing was not priced out correctly at the end of the year.
- The family meal account balances were not reconciled to the unearned revenue account on the balance sheet at the end of the year.

Recommendation - The District should review their procedures to ensure that the commodity food is priced out correctly and the unearned revenues are correctly stated on the balance sheet.

Response - The commodity inventory will be corrected with the next year's costing. The family meal account balances were reconciled at year end but a correction was made after the fact and inadvertently not included in the reconciliation.

Conclusion - Response accepted.

II-E-07 Grants - We noted during our audit, that expenditures posted to the general ledger for specific grants did not always match the quarterly reports that were submitted to the State of Iowa.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - The District will match the quarterly reports to the General Ledger.

Conclusion - Response accepted.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were reported.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-07 Certified Budget - District expenditures for the year ended June 30, 2007 exceeded the amount budgeted in the support services and non-instructional functions.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - The District will review expenses and amend the budget as necessary in accordance with Chapter 24.9 of the Code of Iowa.

Conclusion - Response accepted.

IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-07 Business Transactions - No business transactions between the District and District officials were noted.

IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-07 Financial Condition - We noted during our audit that there were negative individual account balances within the Student Activity Fund.

Recommendation - The District should monitor these deficit accounts and ensure that purchases are not made without the sufficient funds to pay for them.

Response - The District does monitor deficit accounts and allows for purchases if they are pre-planned as a fundraising project. The deficits are accounted for with the expectation that they be made whole and thus not written off.

Conclusion - Response accepted.

IV-K-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The financial institution retained the image of the back of each cancelled check and made it available, if necessary, for the District to review. The District will now receive these images from the financial institution and store them on site.

Conclusion - Response accepted.